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COMMITTEE ON NEBRASKA RETIREMENT SYSTEMS
March 29, 2006
Confirmation Hearing

The Committee on Nebraska Retirement Systems met at 12:15 p.m. on Wednesday, March 29, 2006, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing regarding the confirmation of gubernatorial appointments. Senators present: Elaine Stuhr, Chairperson; Patrick Bourne; Philip Erdman; Don Pederson; and Marian Price. Senators absent: John Synowiecki, Vice Chairperson.

SENATOR STUHR: I believe that even though we are a few minutes early, we will go ahead with our hearing scheduled for this afternoon for the confirmation of a Mr. David Bomberger as the State Investment Officer. And I would like to introduce the committee members: And to my far right is Senator Marian Price from Lincoln; Senator Phil Erdman from Bayard; our legal counsel, Jason Hayes; and to my left, Senator Don Pederson from North Platte; and also our committee clerk, Kathy Baugh. So we will begin this afternoon, and welcome to Mr. Bomberger. I don't know if I'm pronouncing that correctly.

DAVID BOMBERGER: That's right.

SENATOR STUHR: And we will open by having you just tell a little bit about yourself and then we'll see if the committee has questions.

CONFIRMATION HEARING OF
DAVID BOMBERGER AS
STATE INVESTMENT OFFICER

DAVID BOMBERGER: (Exhibit 1) Sure. Thank you, Senator Stuhr and committee members, and it's an honor for me to be here and really an honor to be considered for this position as the State Investment Officer, so I very much appreciate the opportunity and your time. I guess as far as background, I am born and raised in Nebraska in Lincoln and went to the University of Nebraska-Lincoln, graduated in 1977, and then continued my education at University of Nebraska-Omaha and earned a master's degree in, I believe, 1980. I forgot to check the dates but it's about 1980. And also in terms of education and professional background, I

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did complete the Chartered Financial Analyst Program and am a chartered financial analyst. So in terms of education, I think those are some of the critical steps that I would think that you all would want to consider in considering my appointment. I started my investment career at what was then Guarantee Mutual Life Company in Omaha, Nebraska, in 1977 as an investment analyst and was fortunate to be able to progress professionally while at Guarantee Mutual. Guarantee Mutual, as many of you may know, demutualized in, I believe, 1995; became Guarantee Life Insurance Company; became a public company. And at the time that occurred I was senior vice president, treasurer, and chief investment officer for the company. As the reorganization continued and ultimately the company was sold to Jefferson-Pilot. And I had dinner with some former colleagues from the Guarantee days last night and they tell me that Jefferson-Pilot will now become part of Lincoln National on Monday. So it's gone through a number of iterations. My position was eliminated and I had the opportunity then professionally to look at some new opportunities. There's perhaps a job that's not on the resume that you have in front of you. When I left Guarantee, I joined Commercial Federal Bank as a commercial mortgage loan officer for a few months and then the opportunity to join Caterpillar and run their investment management business presented itself in early 1999, and I joined Caterpillar in June of 1999 to run Caterpillar Investment Management. We are the investment advisor to The Preferred Group of Mutual Funds, a family of ten publicly traded mutual funds that were originally created to create investment choices for Caterpillar's 401K participants. And beyond that we expanded the business to a number of clients outside the Caterpillar enterprise. We also developed an internal investment capability to manage a substantial portion of a sister company, Caterpillar Insurance general reserve investment portfolio. So I believe that both my education and my experience in the investment management industry prepare me very well for this situation.

SENATOR STUHR: Okay. Are there questions from the committee that you might address?

SENATOR BOURNE: Just briefly. I apologize for being late. It was the Governor's Chief of Staff's fault. But I apologize.

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SENATOR STUHR: Oh, okay. Senator Bourne has joined us. I have a couple questions with regard to investment of public pension funds. What is your general philosophy with regard to risk and asset allocation?

DAVID BOMBERGER: Well, I believe that the asset allocation really should be determined by the objectives of the assets that are being invested, and that is the nature of the liability that the assets are being invested to support. And it's my understanding that an asset liability study has been completed recently that looks at the nature of the liabilities, and the asset allocation that has been established supports those liabilities. I do feel strongly about having a very well-diversified portfolio of investments supporting any investment objective but in particular a retirement plan, and believe that the asset allocation that the Nebraska Investment Council has implemented is appropriate for the liabilities as I understand them today.

SENATOR STUHR: Okay. Also, when you found out about this position being available, what were some of the reasons that you were attracted to applying for this position?

DAVID BOMBERGER: Sure. Well, one, the fact that I'm from Nebraska, and an opportunity to come home was very appealing to me, and I think the other consideration was that as I have developed my long-term career objectives, one of those has been to serve in a role in public service. And the timing happens to work very well for me at Caterpillar. Caterpillar has made the decision to exit the business that I'm managing today, so it creates an opportunity that I need to look for the next chapter in my career and this chapter happened to present itself at just the right time.

SENATOR STUHR: Are there any challenges that you see or I'm sure that you've probably explored a little bit of the work of the Investment Council and anything at this point or changes that you might be suggesting, any shortcomings that might be improved, or...?

DAVID BOMBERGER: I think the council has done a terrific job, and you know I obviously have lots to learn when I get here, and I suspect that I will have some further ideas as I have a chance to dig in deeper, but I don't come with any

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preconceived notions, any preconceived changes that I would make just because I'm here and Ms. Kontor isn't. I think she's done a fabulous job for the council and for the state, and would hope to be able to continue that same performance.

SENATOR STUHR: All right, and I think we would all agree with your statement. Are there any questions? Senator Bourne.

SENATOR D. PEDERSON: I have a question.

SENATOR STUHR: All right. Senator Pederson.

SENATOR D. PEDERSON: David, will you have the opportunity to work with Carol for a period of time? Is your schedule and her schedule going to coincide?

DAVID BOMBERGER: It is my understanding that Ms. Kontor is going to be available for the month of July so that we will have at least that month to overlap. And she's assured me that she will be available by phone even after she's not in the office, so I think we will have more than ample time and certainly the ability to contact her in the event that something comes up after she departs.

SENATOR D. PEDERSON: Thank you.

SENATOR STUHR: Senator Bourne.

SENATOR BOURNE: Mr. Bomberger, you are planning to relocate to Nebraska? I didn't hear your opening.

DAVID BOMBERGER: Yes, sir.

SENATOR BOURNE: I will tell you, I think you have some big shoes to fill. I think Ms. Kontor has done a fantastic job as our Investment Officer, and I sure am impressed with your resume.

DAVID BOMBERGER: Thank you.

SENATOR D. PEDERSON: The shoes are structured differently though.

DAVID BOMBERGER: I don't look good in heels. (Laughter)

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SENATOR ERDMAN: How do you know?

SENATOR BOURNE: I didn't see that in the resume.

SENATOR STUHR: Senator Erdman, did you have a question?

SENATOR ERDMAN: Just a comment. It appears from your resume and the work that you've done through your position currently at Caterpillar that you're willing not only to look at the best interests of the return but also to examine the structure and to make sure the people that are surrounding you are the appropriate people in order to achieve that objective. And as I look at the things you have listed as accomplishments, not all of them are specific to a return as much as they are the ability to find new products or to effectively manage. And I think that's also important in the position of chief investment officer, not just the simple dollars and cents but the philosophy and the background of being able to examine the scenario and to devise a plan to proceed forward. And, you know, it appears that your accomplishments speak not only well of your ability to manage financially but also the management position, and I commend you for that.

DAVID BOMBERGER: Thank you, Senator.

SENATOR STUHR: Okay. Are there any other questions? I, too, want to thank you for coming, and there will be a number of us that won't be here but there will be some remaining senators that will look forward to working with you I know, so best of luck.

DAVID BOMBERGER: Thank you, very much.

SENATOR STUHR: Okay. Are there those that would like to come forward in support? Okay. Welcome.

CAROL KONTOR: Thank you. Senator Stuhr and members of the Retirement Committee, my name is Carol Kontor, C-a-r-o-l K-o-n-t-o-r, and I would just like to take a minute or two to tell you about the process that the Nebraska Investment Council went through to have this recommendation. The council decided on a subcommittee to act as a search committee that consisted of Gail Robertson who is the chair

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of the council; two council members: John Maddux, Earl Scudder; and myself. We served as the search committee. Initially, we tried to articulate what were the qualities we were looking for. We came down to basically three: investment acumen, communication skills, and management skills. With that, then in the fall we began advertising. We advertised both locally and nationally: the state job line, the Lincoln Journal Star, the Omaha World-Herald, Pensions & Investments, The Wall Street Journal, Bloomberg, CFA Institute. And from that process, we received 51 applications. The search committee then reviewed those applications and narrowed it down to nine candidates. The search committee had phone interviews with those nine candidates. We had 20 questions that we asked them all so that we could try to maintain an apples-to-apples comparison in terms of the questions. From the phone interviews, we narrowed it down to six. The search committee then met with those six the end of January. We had some additional formal questions but that was more open-ended. We wanted to get to know the candidates more. From that meeting, we narrowed it down to three that appeared at the council meeting in February. And following that, those interviews at the full council meeting, the council voted unanimously to recommend David Bomberger be hired as State Investment Officer. Governor Heineman has approved the hiring of David Bomberger and the council is in full support. We are pleased that we were able to do this internally without having to hire an outside search firm, and we are very confident that Dave will be an outstanding State Investment Officer and serve well the plan participants and the state of Nebraska. And with that I would answer any questions.


SENATOR STUHR: Okay. Thank you, very much. Are there questions? I think that was most helpful to share that process with us and I think you were very diligent in your searching. And I know that I speak for all the committee members, also to thank you for your work.

CAROL KONTOR: Well, thank you. And also the council members that served on the search committee, they put a lot of time into this, as you can probably tell, in the process. And we are really fortunate to have the commitment that we do have on our council members. And I thank you for your kind words.

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SENATOR STUHR: Yes. Thank you very much. Are there others that would wish to testify in support of Mr. Bomberger? Are there those that wish to testify in opposition? If not, that closes the hearing on the confirmation of David Bomberger for the chief investment council.


Chairperson


Committee Clerk